

**12/21/78**

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FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
Memo	<del>McIntyre to Pres. Carter,</del> <del>w/attachments 3 pp., re: DoD topics</del> <i>opened per RAC NLC-125-15-26-1-6, 6/27/13</i>	12/27/78	A
Memo	<del>McIntyre to Pres. Carter,</del> <del>w/attachments 22 pp., re: Strategic Petroleum Reserves</del> <i>opened per RAC NLC-126-15-26-2-5, 6/27/13</i>	12/20/78	A

## FILE LOCATION

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THE WHITE HOUSE

WASHINGTON

December 21, 1978

NOTE FOR THE PRESIDENT

FROM: ANNE WEXLER

*Anne*

You may be interested in the attached booklet, which contains the speeches delivered at the December 6 human rights commemoration. After the event, my office received so many requests for copies of your speech that I decided to have this booklet printed.

We are mailing this booklet to everyone invited to the December 6 commemoration, whether or not the individual actually attended the event. In addition, the booklet will be sent to persons who are interested in your human rights policy but who, because of room size constraints, could not be invited to the December 6 event.



THE WHITE HOUSE  
COMMEMORATION  
of the  
30th ANNIVERSARY  
of the  
UNIVERSAL DECLARATION  
of HUMAN RIGHTS

December 1978

THE WHITE HOUSE  
WASHINGTON

12/26/78

MR. PRESIDENT:

JIM MCINTYRE FEELS YOU SHOULD  
CALL SEC. BROWN TONIGHT TO INFORM  
HIM OF YOUR DEFENSE BUDGET DE-  
CISIONS. MCINTYRE HAS BRIEFED HIM  
BUT FEELS BROWN SHOULD GET THE FINAL  
WORD FROM YOU. AN LA TIMES STORY  
WILL RUN TOMORROW OUTLINING THE  
DEFENSE BUDGET CAUSING THIS PHONE  
REQUEST FOR TONIGHT. JODY AGREES  
WITH THIS REQUEST.

PHIL



~~CONFIDENTIAL~~

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

done -  
I met  
with Brown  
12/27/79  
J

MEMORANDUM FOR: THE PRESIDENT  
FROM: James T. McIntyre, Jr.  
SUBJECT: Talking Points for Call to Secretary Brown

1. 1980 Defense Total: \$135.6B TOA (1.3% real growth)  
\$122.8B Outlays (3% real growth over 1979  
base of \$112.0B)  
(\$2.1B supplemental TOA for FY 79)

(\$ in billions)

	<u>TOA</u>	<u>(Real Growth)</u>	<u>Outlays*</u>	<u>(Real Growth)</u>
1.	134.0	(.1%)	122.9	(2.6%)
2.	135.6	(1.3%)	122.2	(2.6%)
3.	136.4	(1.9%)	122.8	(3.0%)
4.	137.7	(3.0%)	123.2	(3.3%)

\* Option 1 uses OMB outlay rates; all other options use DOD outlay rate assumptions.

- II. Civilian Personnel: 1979 = 995 (thousand)  
1980 = 986 "  
1981 = 979 "  
(DOD request was 997, 991, 991)

III. Efficiencies: I want to be able to demonstrate these publically. Had it not been for the 3% commitment, I would have taken the \$1B in efficiencies out of your total.

- As it is, I am essentially giving you more program for the chosen budget level.
- I'd like you to report to me and Jim frequently as to how all of your efficiency efforts are proceeding, especially base realignments.

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IV. Program Decisions: (Here are two alternative ways to proceed -- we recommend A)

- A. I have made decisions on each of the specific program issues, and have asked Jim and John to pass those back to you. (OR)
- B. I have made the following decisions on the specific program issues still outstanding:
- MX. Per your recommendation, proceed with full scale development in 1979 (supp.), and plan to make final basing choice in time to fund actual development of basing mode in 1980.
  - Army "heavying up". Plan for continued modernization of Army units as presently configured. Consider additional support for existing units. Defer plans to create new heavy battalions and convert two infantry divisions.
  - ATCA. Purchase four (4) aircraft in FY 80.
  - Frigate. Add a sixth Perry-class FFG-7 (\$190M) in FY 80, as you have agreed.
  - EF-111. Proceed with program if you believe electronics difficulties are solved (Do not stretch out extensively, though).
  - R&D. \$13.5B total, with program content as per your rankings.
  - O&M. \$40.0B total (1.5% real growth, reflects \$200M in supply and manpower efficiencies, so actual "program content" is worth \$40.2B).
  - Military Construction (Includes family housing). \$3.5B.

V. Outyear Numbers: (We must print 1981 and 1982 numbers, these reflect about 3% (2.7%, to be exact) real growth in outlays)

(\$ in Billions)

	<u>1980</u>	<u>1981</u>	<u>1982</u>
TOA	135.6	145.8	155.8
Outlays	122.8	133.8	145.0

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EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

DEC 20 1978

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES T. McINTYRE, Jr. *Jim*  
SUBJECT: Strategic Petroleum Reserve Issues

Secretary Schlesinger and I met for several hours on Wednesday evening with our staffs and discussed all of the SPR issues.

A. SPR IMPLEMENTATION, COST CONTROLS, AND FUNDING LEVELS

We have reached agreements between OMB and DOE on appropriate funding levels and mechanisms for the SPR program for FY 1979 and 1980. More importantly, we also have agreed on a set of financial and budgeting procedures which will give both top-level DOE and OMB officials better and more timely information about the program and greater control over costs. Budget requests and apportionments of funds will be tied on a site-by-site basis to a financial operating plan, and departures from that plan will be closely monitored and tightly controlled. Cost considerations will receive equal priority with schedule and program concerns.

B. REGIONAL STORAGE

We are unable to reach agreement on the regional storage issue, and we will need to discuss it with you at our Thursday afternoon session. An issue paper is included at Tab .

C. THE FOURTH 250 MMB

The memorandum which follows sets forth our current views on this issue. We and DOE continue to disagree.

We believe, as we have, that no more than 750 MMB of government storage is necessary and justified in light of the cost and alternatives, and that the 1,000 MMB goal should be clearly restated to include only 750 MMB of government storage. DOE continues to believe that government storage of the full 1,000 MMB is necessary and that some funding should be provided for the fourth 250 MMB in FY 1980.



Subject to your approval, however, we have agreed to the compromise Option 3, excerpted from my memorandum as follows:

Option 3 -- Delay decision on fourth 250 MMB. Retain goal of 1,000 MMB of reserve protection (official Administration position that it may not necessarily be all government storage) pending later decision. Direct the Department not to request funding in any form in FY 1980 for the design and development of storage facilities beyond the first 750 MMB. Display no funding in out-year (1981-84) budget projections in FY 1980 Budget for fourth 250 MMB.

Although I remain unconvinced by the foreign policy-related arguments in favor of a full 1,000 MMB of storage, there is in my opinion a valid reason not to announce a decision at this time. For that reason, I can agree to the compromise option.

You should know, however, that although DOE has agreed not to propose consideration of the fourth 250 MMB until the FY 1981 Budget, I have specifically reserved my prerogative to raise the issue with you at an earlier date.

In any event, it is very important that the Administration--including DOE--continue to state publicly that we have not yet decided how to provide for the last 250 MMB of reserve protection.

SIZE OF THE  
PETROLEUM RESERVE



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EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

DEC 20 1978

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES T. MCINTYRE, Jr. *Jim*  
SUBJECT: Amount of U. S. Government Storage as Part of a  
Billion Barrel Strategic Petroleum Reserve

I. INTRODUCTION

You have my earlier memorandum, an NSC memorandum in response to your request that it examine the national security aspects of this issue, and a recent DOE memorandum. The purpose of this final memorandum is to present the issues in a framework suitable for our discussion on Thursday and for your resolution.

The issues as I see them are as follows:

1. Is government storage of a fourth 250 MMB necessary to provide the billion barrels of reserve protection which you have set as a goal and is the \$6 billion cost of the fourth 250 MMB justified by the likely benefits?
2. Should you make the fourth 250 MMB decision at this time and should funding be provided in FY 1980--either in the Budget itself or in a later budget amendment or supplemental request--for the start of facilities development for that fourth 250 MMB?
3. If you defer a decision and funding is not to be sought in FY 1980, how should the Administration deal with the fourth 250 MMB issue in the Budget?

II. BACKGROUND

The billion barrel goal was established in the midst of the 90-day development of the National Energy Plan in early 1977. Although the Ford Administration goal had been a government-held reserve of 500 MMB, DOE argued at the time that the \$12 billion cost of doubling the size of the storage program would be more than offset by the \$35 billion in 1979-85 revenues we anticipated from the NEP oil and gas users tax. As it turned out, the final NEA did not include the tax, though it did include tax

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classification on 12-20-94

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BY KS NARA DATE 6/25/13

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credits and spending programs which could cost as much as \$11 billion over that same period. Obviously, the \$12+ billion cost of the SPR expansion now must be borne out of Treasury receipts and budget deficits. This factor alone would argue for a reexamination of the program.

During the FY 1979 budget process, we raised the issue of the need for one billion barrels of government storage. You agreed to allow DOE to begin facilities development for government storage of the first 750 MMB, while retaining the goal of a billion barrel reserve,<sup>1/</sup> and you directed that OMB and DOE analyze the need for government storage of the fourth 250 MMB and study alternatives to it. The FY 1980 issues result from that analysis and those studies.

### III. IS THE ISSUE NOW MOOT?

In recent exchanges with DOE on this issue, the Department has suggested that the fourth 250 MMB is no longer an FY 1980 budget issue; the Department amended its budget request on December 11--restricting its current request to funding for the first 750 MMB. Without regard to the need for FY 1980 funding, there are aspects of the issue that are not moot:

1. At such time as a decision is made to embark on the fourth 250 MMB increment, an SPR Plan Amendment must be submitted to the Congress. It can be rejected by the veto of one house, and there already are indications that such an amendment would receive more than token opposition.

2. In any event, the entire SPR is under Congressional reexamination. Questions have been raised regarding the ultimate size of the government storage component, and Rep. Dingell's subcommittee--which just held an SPR hearing on Monday--has retained C-5A "whistleblower" Ernest Fitzgerald to investigate the SPR program.

3. The SPR program has suffered from a preoccupation with the billion barrel storage goal and an unrealistic schedule. As a result, the first storage increment will fall 72% short of its 250 MMB 1978 goal amid cost overruns of 165%. No withdrawal system is in place, and no detailed use plan has been developed. Although DOE now has reasonably firm cost estimates

<sup>1/</sup> No funds for the fourth 250 MMB were shown in the July update of the FY 1979 budget outyear projections, nor did the 1979 SPR Plan Amendment submitted to the Congress commit the Administration to government storage of 1,000 MMB.

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for the first 250 MMB, the cost estimates for the next 320 MMB (expansion of existing sites) are more speculative. Beyond the first 570 MMB, unproven processes will be required to leach-out and fill storage caverns at new sites; although DOE proposes to use a turnkey approach for these sites, that turnkey approach is still in its formative stages.

#### IV. IS THE FOURTH 250 MMB NECESSARY?

Aside from foreign policy considerations, the NSC states that the critical considerations here are the costs to the United States of lost production (GNP impact) and inconvenience to the populace resulting from a supply interruption. We agree with the NSC that these costs will not be critical (and the difference between 750 MMB and a billion barrels of government storage not significant) except in a "worst case" supply interruption.<sup>2/</sup> (S)

Under a "worst case" situation and assuming optimum use of an SPR, U. S. consumption levels of 21 MMB/day in 1985<sup>3/</sup> would have to be reduced by 13.9% (2.9 MMB/day) with a 750 MMB SPR or 10.6% (2.25 MMB/day) with a 1,000 MMB SPR. The question is whether the 650,000 B/day advantage of the larger SPR is worth the \$6 billion investment. What are likely to be the incremental GNP and other impacts of not having it? Are there alternative, more preferable means of making up that shortfall?

Exhibit A shows how four different macroeconomic models predict the U. S. loss in GNP caused by a petroleum shortfall. Because of the shape of the curves, an optimum SPR use strategy would concentrate on the high end of the range where there are more benefits to be gained in reduced GNP loss with each barrel of SPR oil which is used. The shaded area at the lower end of the graph shows the difference in GNP loss attributable to the additional 650,000 B/day shortfall.

(NOTE: Exhibit A makes no allowance for the low probability of disruptions actually occurring, and the GNP loss has not been discounted back to its present value.)

In Exhibit B, all benefits and all costs along the 1979-90 stream have been discounted back to the present. The GNP loss functions from two of the four macroeconomic models (the two models which show the highest GNP losses)

<sup>2/</sup> A threats assessment study completed during the past year--with NSC, CIA, State, OMB, DOE and other agencies participating--identified several categories of supply interruption threats. The "worst case" was hypothesized as a 75% closure of the Persian Gulf lasting for six months, followed by 50% closure for another six months. Assuming effective operation of the International Energy Agreement (IEA), the "worst case" supply disruption to the United States would amount to about 5 MMB/day for one year. (S)

<sup>3/</sup> Current levels are about 18 MMB/day. Twenty-one MMB/day is a mid-to high-range projection.

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are plotted against (a) the present value of the net benefits, and (b) the probability of a severe or "worst case" disruption amounting to 6 MMB/day. The chart shows that the fourth 250 MMB increment has positive benefits only if the probability of a "worst case" occurrence between 1979-90 exceeds 11% or 25%, depending on the model.

For comparison purposes, it is instructive to note that the Persian Gulf closure "worst case" generally has been assigned an extremely low probability (similar to that of a Soviet invasion of Western Europe). All parties to the NSC threats assessment agree that the likelihood of a "severe case" (50% supply interruption for one full year) is extremely low, since it clearly would not be in the interests of the exporting nations. Finally, the probability of two "moderate" supply interruptions occurring in two successive years is equally low; it would mean the equivalent of Iran's entire production lost for a full year, with all of either Iraq's or Kuwait's production lost for the entire next year. (S)

We therefore conclude that the present value of the net benefits--in terms of avoidable GNP losses--of the fourth 250 MMB is negative under any reasonable assessment of the threat.

The question remains, however, as to whether a fourth 250 MMB of storage is the only feasible means of making up the incremental 650,000 B/day shortfall--even if the net present value of the investment is negative. In other words, why do we believe the United States could tolerate a 2.9 MMB/day shortfall in a "worst case" situation as well as it could tolerate a 2.25 MMB/day shortfall?

Exhibit C (and the attachment thereto) illustrates an assessment of the sources of private sector endurance and demand restraint available in 1985. These estimates are conservative and have been made only after macroeconomic analysis; consultation with CEA, DOE and other government agencies; and canvassing of the private sector. The unavoidable GNP loss, for example, is a prediction based on DOE/CEA/OMB macroeconomic analysis; the endurance attributed to the electric utilities is derived from a study conducted for OMB and DOE by the National Electric Reliability Council, an industry group.

Our firm conclusion from this assessment is that more preferable and less costly alternatives to a \$6 billion investment in the fourth 250 MMB do exist, and that they are precisely the kinds of endurance and demand restraint measures that one should rely on in the event of a "worst case" supply interruption.

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## V. FOREIGN POLICY CONSIDERATIONS

Two foreign policy-related concerns have been raised in connection with this issue.

### A. Commitments to the IEA Member Nations

A number of your foreign policy advisors have joined DOE in cautioning against making the decision which we have suggested, on the grounds that it would be perceived by our allies as an untimely retreat from past commitments.

With respect to timing, I would not suggest that you make a public announcement of your decision to limit government storage to 750 MMB until (1) adequate consultation with the IEA members have been undertaken, and (2) the currently unsettled conditions in Iran have stabilized.

As far as our past commitments are concerned, I would urge that we view them in light of what it is necessary for us to do in order to meet them; what we can afford to do; and what other nations are doing.

First, we should expect our allies to understand what we now understand: That is, it is not necessary for the United States Government to store 1,000 MMB of oil in order to provide 1,000 MMB worth of reserve protection. A 750 MMB government reserve, together with 250 MMB of identified private sector endurance and demand reduction can safely provide 1,000 MMB of protection, while allowing us to meet our commitment quicker and less expensively.

Second, none of our allies expect us to treat a \$6 billion savings lightly. It would represent a significant contribution to reducing our balance of payments deficit and our budget deficit, thus strengthening the dollar and fighting inflation.

Third, as Exhibit D shows, the United States already has met its formal IEA requirement. Furthermore, particularly in light of the lack of a demonstrated effort or even apparent concern on the part of our principal allies, the difference between a 750 MMB government reserve and a 1,000 MMB government reserve is marginal at best.

### B. The Deterrence Factor

In terms of deterrence, a fourth 250 MMB will add little to that already provided by a 750 MMB SPR. No matter what its ultimate size, an SPR will not deter oil field accidents, natural disasters, political unrest, regional wars or terrorist attacks on oil facilities. (S)

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There clearly is a deterrent value against politically-motivated moderate or severe interruptions, but even a 1976 internal DOE study concluded that the deterrence value of an SPR peaks in the 500-700 MMB range and that little is obtained beyond that point. The SPR, for example, will not be a deterrent against a Soviet invasion or blockage of the Persian Gulf; larger political and military considerations would determine that decision, and prepositioned war stocks and other military capabilities would determine the success or failure of a Western counter-offensive.

## VI. OPTIONS

- Option 1 -- Proceed with government storage of 1,000 MMB of oil. Include funding in FY 1980, either in the January budget as an addition to the contingency or in a later amendment or supplemental. Submit an SPR Plan Amendment to the Congress formally proposing expansion of the storage program to the 1,000 MMB level. (DOE request)
- Option 2 -- Limit government storage component of SPR to 750 MMB, but retain goal of 1,000 MMB of reserve protection. Identify and plan for reliance on 250 MMB worth of private sector endurance and demand reduction. Formally announce decision after consultation with IEA nations at an appropriate time in 1979. (OMB recommendation)
- Option 3 -- Delay decision on fourth 250 MMB. Retain goal of 1,000 MMB of reserve protection (official Administration position that it may not necessarily be all government storage) pending later decision. Direct the Department not to request funding in any form in FY 1980 for the design and development of storage facilities beyond the first 750 MMB. Display no funding in out-year (1981-84) budget projections in FY 1980 Budget for fourth 250 MMB.

SPR  
Options for the FY 1980 Budget  
(\$ in Millions)

<u>Budget Authority</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Base Program (750 MMB)	3001	127	1295	2106	1828	2214
Option 1 (DOE)	--	774	970	1428	706	1274
Option 2 (OMB)	--	--	--	--	--	--
Option 3	--	--	--	--	--	--
<u>Outlays</u>						
Base Program (750 MMB)	2651	2155	1886	1637	2149	1840
Option 1 (DOE)	--	662	450	1231	1195	755
Option 2 (OMB)	--	--	--	--	--	--
Option 3	--	--	--	--	--	--

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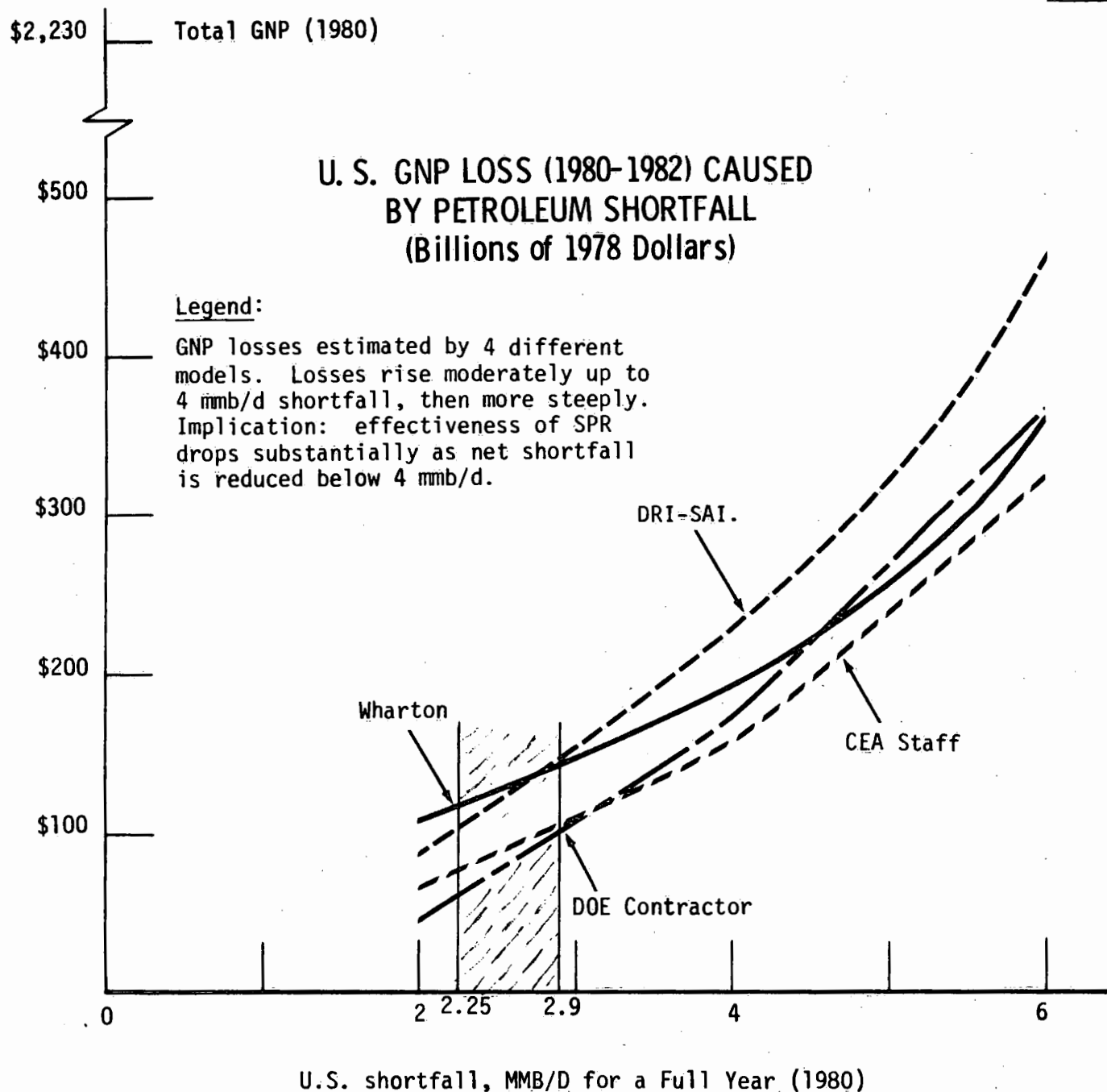
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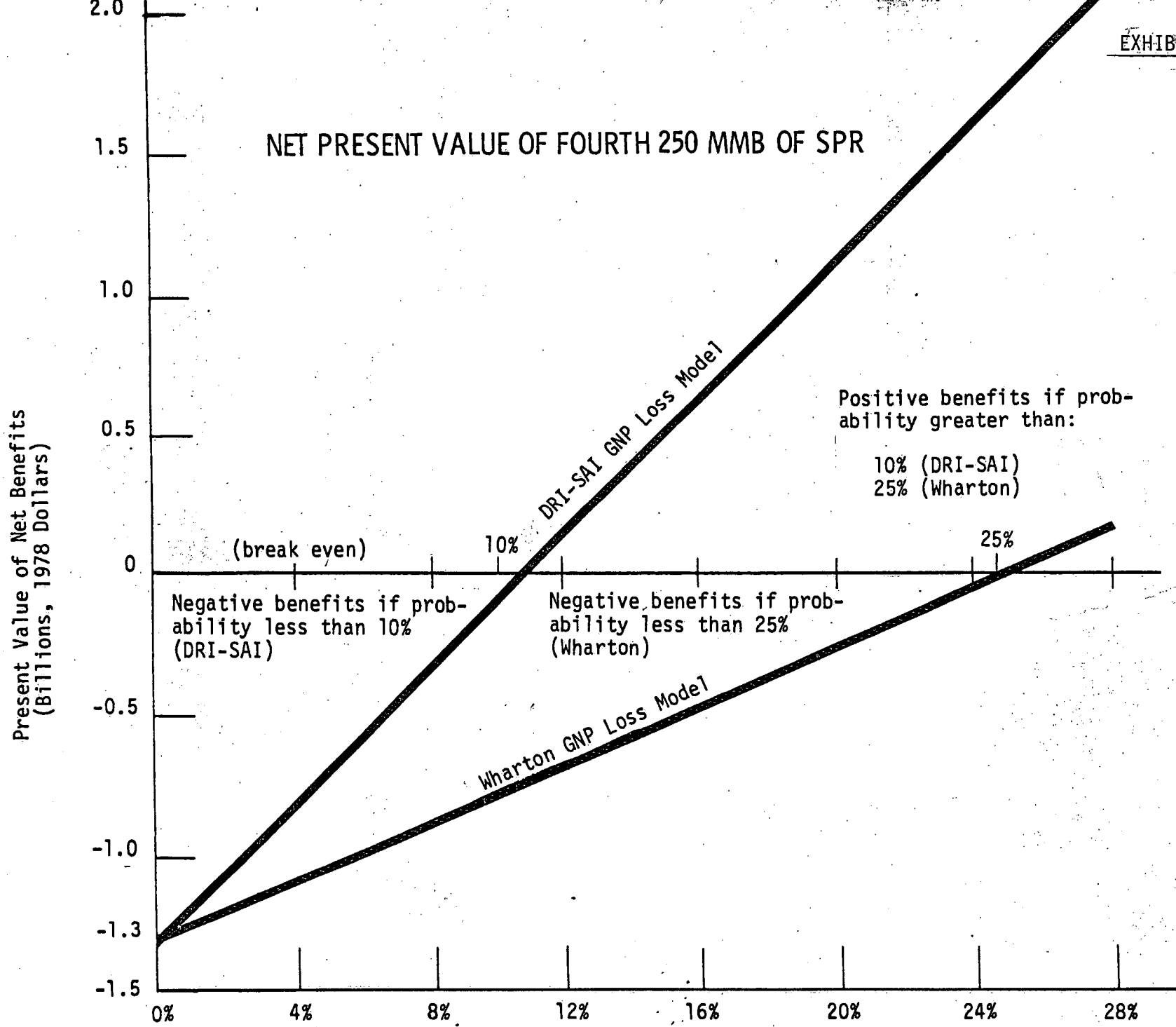
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Note 1: Amounts shown for Options 1 are OMB estimates based on DOE data. DOE formal request would be submitted in mid-summer of 1979 in the form of an FY 1980 budget amendment or supplemental or reprogramming.

Note 2: Possible variations of Option 3 include showing funding for the fourth 250 MMB beginning in FY 1981 or FY 1982. OMB would not recommend this course if Option 3 were chosen.

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Probability of a Severe or Worst Case Disruption (6 mmb/d), 1979-1990

Sources of Private Sector Endurance & Demand Restraint, 1985

	<u>Percent of U.S. Consumption</u>	<u>Million Barrels per day</u>
A. <u>Private sector endurance</u>		
° Primary petroleum safety stocks	0.7 to 1.3%	0.1 to 0.3
° Electric utility inventories & power wheeling	1.8 to 2.0%	0.4
° Manufacturing, commercial, residential, and transportation other than autos	NA	NA <u>1/</u>
Subtotal		(0.5+ to 0.7+)
B. <u>Rationing/allocation of automobile gasoline &amp; diesel fuel (see attachment)</u>	5 to 10%	1.1 to 2.1
° Rationing of pleasure boat & airplane fuel	NA	NA
C. <u>Mandatory demand restraint</u>		
° Restrictions on heating, cooling, hot water, and advertising lighting	1.3%	0.3
° Others such as limiting store hours	NA	NA
D. <u>Unavoidable GNP loss (even if SPR can offset total oil shortfall)</u>	1 to 3%	0.2 to 0.6
Total	10+ to 18+%	2.1+ to 3.7+ <u>2/</u>

NA: Not available. Analyses not completed or out of date.

1/ These sectors account for about 57 percent of U.S. oil consumption. If their endurance (fuel switching, inventories) amounts to only 5 days' supply, this would represent 0.2 mmb/d.

2/ Compares with net shortfalls in oil supplies assuming a worst case and:

° 750 mmb SPR available (13.9% net shortfall)	2.9 mmb/d
° 1000 mmb SPR available (10.6% net shortfall)	2.2 mmb/d

Discretionary Gasoline/Diesel Fuel Use by Automobiles

- (1) Total transportation sector accounted for 52 percent of total U.S. petroleum consumption in 1977.
- (2) Cars (including light trucks) accounted for about two-thirds of total use by transportation sector, or 35 percent of total U.S. petroleum consumption.
- (3) Discretionary driving
  - ° Travel to and from work and on-the-job travel accounts for 40 percent of personal vehicular travel.
  - ° Federal Highway Administration reports that social and recreational travel (visiting friends, pleasure driving, vacations, etc.) accounts for 33 percent.
  - ° The remainder of automobile travel (27 percent) includes civic, education-related, religious, visits to the doctor, essential and nonessential shopping, and "unknown."
  - ° If only 2 percent of the remainder represents nonessential travel, then nonessential discretionary travel represents at least 35 percent of total automobile travel.
  - ° In addition to nonessential discretionary travel, opportunities exist to conserve fuel used in "essential" travel--better planning to reduce shopping trips and to accomplish more tasks in a given trip, carpooling, greater use of public transportation, etc.
- (4) Rationing potential for automobile fuels
  - ° By restricting nonessential discretionary driving (35 percent of total travel), gasoline/diesel fuel rationing could save 12 percent ( $.35 \times .35$ ) of U.S. petroleum requirements:  
$$1978: .12 \times 18 \text{ mmb/d} = 2.2 \text{ mmb/d} = 790 \text{ mmb for the year}$$
$$1985: .12 \times 21 \text{ mmb/d} = 2.5 \text{ mmb/d} = 920 \text{ mmb for the year}$$
  - ° A very conservative estimate of the savings from automobile fuel rationing is 5-10 percent:  
$$1978: 0.9 - 1.8 \text{ mmb/d} = 330 - 660 \text{ mmb for the year}$$
$$1985: 1.05 - 2.1 \text{ mmb/d} = 385 - 770 \text{ mmb for the year}$$

Emergency Reserves of Major IEA Petroleum Importers

	<u>Current IEA Emergency Reserves <sup>1/</sup></u>		<u>Planned Government Emergency Reserves</u>		<u>Total</u>	
	<u>MMB</u>	<u>Days of Imports</u>	<u>MMB</u>	<u>Days of Imports</u>	<u>MMB</u>	<u>Days of Imports</u>
United States	998	131	750-1000	99-132	1748-1998	230-263
United Kingdom	123	127	--	--	123	127
Japan	328	77	189	44	517	121
Germany	260	107	29	12	289	119
Italy	151	93	--	--	151	93
Spain	64	76	--	--	64	76

<sup>1/</sup> The IEA requires each member country to have 90 days' supply of imports by 1980. Emergency reserves are defined as total stocks (including working stocks) less 10 percent. Days of imports based on 1977 imports and stocks as of July 1, 1978.



REGIONAL PRODUCT STORAGE

Issue Paper  
Department of Energy  
1980 Budget  
Strategic Petroleum Reserve/Regional Storage

	<u>1980</u>		<u>1981</u>		<u>1982</u>	
	<u>Agency</u>	<u>OMB</u>	<u>Agency</u>	<u>OMB</u>	<u>Agency</u>	<u>OMB</u>
	<u>Appeal</u>	<u>Rec.</u>	<u>Appeal</u>	<u>Rec.</u>	<u>Appeal</u>	<u>Rec.</u>
<u>Budget estimates</u>						
Budget Authority .....	82	0	60	0	3	0
Outlays .....	55	0	71	0	22	0
FTP employment .....	4	0	N/A	0	N/A	0

Background

- ° The bulk of DOE's proposed SPR (977 mmb) would be crude oil stored in Gulf Coast salt domes for reasons of effectiveness, efficiency and environment.
- ° The Department also proposes:
  - "regional storage:" storage of 20 mmb of residual fuel oil (10 mmb in Texas and 10 mmb in New England) to serve the East Coast.
  - "non-contiguous area storage:" storage of 3 mmb of crude oil and jet fuel in Hawaii.
- ° In the 1979 budget, the President said (1) that DOE could proceed with regional and non-contiguous area storage only if required storage facilities cost no more than salt dome storage, and (2) that DOE should develop a use plan for the SPR, in part so that the New England delegation would have some assurance that the SPR would protect their region.

- ° The current cost estimates for regional storage are:

<u>Category</u>	<u>\$ per barrel</u>
DOE average salt dome cost (crude).....	\$3.25
Regional storage cost (product)	
- East Coast.....	8.30
- Texas.....	6.80
- Hawaii.....	8.25

- ° The total cost of regional and non-contiguous area storage is currently estimated to be \$166 million through 1985. However, availability and environmental acceptability of the proposed sites are not confirmed; the cost estimates, consequently, are uncertain and subject to change.
- ° A detailed use plan for the SPR has not yet been prepared.

#### DOE's position

- ° Lack of fuel oil storage will provide questionable protection for East Coast residual oil importers. Uncertainties (such as the potential for low inventory levels, delays in using Caribbean refineries or in shifting refinery yields to produce more resid) could result in a serious residual oil shortage.
- ° Fuel oil storage in Gulf Coast salt domes or in Canada could not be undertaken under OMB's proposal.
- ° East Coast congressmen could be provoked by OMB's proposal; sufficient congressional support may exist to legislate a larger and higher cost regional SPR than DOE proposes.
- ° Lack of Hawaiian storage would leave Hawaii vulnerable to severe oil interruptions (particularly those which impact Southeast Asian crude flows).
- ° If Hawaiian storage is not provided, Hawaii is likely to pursue both political and legal action to obtain it, since authorizing legislation requires non-contiguous area storage to the maximum extent practicable. Hawaiian State and Congressional representatives urge 10 mmb in Hawaii but have stated a willingness to accept 5 mmb.

### OMB's position

- ° DOE's substantive arguments in favor of regional and non-contiguous area storage are weak. They are based on studies which made extreme assumptions and which indicate that DOE's request cannot be justified on programmatic grounds. For example:
  - A severe (50% OAPEC cutback) disruption was postulated with no demand restraint; but with a disruption of this magnitude and resulting high prices (e.g., \$1.20 per gallon of gasoline even with price controls) significant restraint is inevitable.
  - Low fuel oil inventories were assumed. But there was no consideration of power-wheeling or of the "pipeline" of ships stretching from the Caribbean to New England.
  - An embargo might be targeted on the U.S. and this would hurt Hawaii. But embargoes (even the Saudis agree) cannot be targeted.
  - Tourism to Hawaii would be adversely impacted since tourists would fear lack of jet fuel. But jet fuel would continue to be produced in Hawaii and imported to it.
- ° Fuel oil storage in Gulf Coast salt domes or in Canada could be undertaken under the President's earlier decisions if they are cost competitive with crude oil storage in salt domes. Members of Congress, however, regard these options as inadequate.
- ° Political support for regional and non-contiguous area remains strong due to DOE's failure to produce a detailed use plan for the SPR, documenting how the reserve would be used in an emergency. Consequently, the Department has been unable to assure members of Congress that their constituents' interests will be protected. Congress has asked for a detailed SPR use plan; OMB has asked for it; the President asked DOE to prepare it last year. But work on it just started.
  - DOE has a general use plan for the SPR which outlines, in conceptual terms, how the SPR would be used in an emergency. However, DOE agrees it is not adequate for operating the SPR in an emergency. DOE's general use plan was prepared in 1976.
  - This past year, DOE completed studies on regional and non-contiguous area storage, but these studies focused primarily on physical facilities for New England and Hawaii rather than on use of the SPR to protect these regions.

- DOE is now working on a detailed use plan for the SPR. The detailed use plan will specify how oil in the SPR will move from storage sites to users; document how oil distribution will be controlled; insure that pricing policy protects New England etc. DOE plans to complete this detailed operating plan in 1979.
- ° Political considerations against regional and non-contiguous area storage include:
  - Environmentalists have yet to be heard from. EIS's are not yet done on possible sites.
  - Crude oil storage could appear as a give away to the two refineries located in Hawaii (Socal and Hawaii Independent).
  - The Administration has amply demonstrated concern for the energy interest of New England by accelerating and expanding the SPR and by adjusting the entitlements program last summer to reduce New England fuel bills, with the cost borne by other sectors of the country. Approval of this change was obtained at substantial political cost to the Administration.
- ° While authorizing legislation requires non-contiguous storage to the "maximum extent practicable," the legislation's conference report explicitly states this requirement is "not absolute." Furthermore, the SPR plan sent to Congress in 1977 found, "based on extensive analysis," that Hawaiian storage is impracticable because costs and environmental problems would be undesirable and benefits would be minimal.
- ° DOE's proposal presents substantial threats to the President's budget, such as the following:
  - DOE's cost estimates are not firm because (1) site availability and environmental acceptability are not confirmed and (2) they are based on preliminary cost estimates, rather than detailed design; initial estimates excluded site acquisition, maintenance, and safety system costs. In short, cost estimates for regional storage are similar in quality to DOE's early salt dome cost estimates, which have grown substantially. If prior experience is a guide, the total price tag for regional storage could grow from \$166 million to over \$250 million.

- The New England delegation reportedly wants 40 (not 10) mmb of residual fuel oil stored for New England utilities; potential additional threat: \$250 million. Hawaii wants 10 (not 3) mmb; potential threat: over \$65 million.
- Other States might press for regional storage. At least five States might claim a local component of the SPR. Potential threat: (5 States @ \$100 million =) \$500 million.
- Other non-contiguous areas could make a claim: Puerto Rico, Virgin Islands, Guam, American Samoa, and the Pacific Trust Territories. Potential threat: \$75 million. (Only Puerto Rico has been pressing its case and accounts for \$48 million of the \$75 million.)
- ° Finally, adding regional and non-contiguous area storage to the SPR responsibilities will add to the demands on SPR management with potential adverse impacts on the rest of SPR implementation.



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

C

MEETING ON THE 1980 BUDGET

Thursday, December 21, 1978  
9:45 A.M. (one hour)  
The Cabinet Room

From: James T. McIntyre, Jr.

I. PURPOSE

A meeting regarding the fiscal year 1980 budget appeals of the National Aeronautics and Space Administration (9:30 a.m.) and the Department of Energy (10:00 a.m.). Supporting materials are included in the attachment.

II. PARTICIPANTS

The Vice President  
Stuart Eizenstat  
Frank Moore  
Hamilton Jordan  
Jody Powell  
Gerald Rafshoon  
Jack Watson  
Anne Wexler  
Frank Press  
Charles Warren

James McIntyre  
John White  
Bowman Cutter  
Dale McOmber  
Eliot Cutler  
Herky Harris  
Robert Frosch  
Alan Lovelace  
Secretary James Schlesinger  
John O'Leary

Attachment



Substitute page 8 for

binder entitled:

1980 Budget  
Budget Status/  
Final Decisions

**CIVIL RIGHTS ACTIVITIES**  
(Outlays in millions)

	<u>1977</u> <u>act.</u>	<u>1978</u> <u>act.</u>	<u>1979</u> <u>est.</u>	<u>1980</u> <u>est.</u>
AGRICULTURE .....	4.2	7.8	8.5	8.5
COMMERCE .....	1.1	1.4	.8	.9
DEFENSE .....	48.9	41.0	42.0	43.3
HEW .....	26.9	34.0	65.6	66.2
HUD .....	12.8	16.3	14.1	19.6
JUSTICE .....	27.0	30.5	33.8	38.2
LABOR .....	14.6	6.3	48.3	49.2
TRANSPORTATION .....	4.1	2.1	2.0	2.2
CIVIL SERVICE COMMISSION .....	189.7	191.0	219.3	233.4
COMMISSION ON CIVIL RIGHTS .....	9.5	10.4	10.8	10.8
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION .....	71.1	74.2	109.4	119.4
GENERAL SERVICES ADMINISTRATION ...	5.8	1.2	1.2	0.2
SMALL BUSINESS ADMINISTRATION .....	1.0	.9	1.1	1.4
ALL OTHER .....	<u>11.1</u>	<u>1.8</u>	<u>2.5</u>	<u>2.9</u>
TOTAL .....	427.8	418.9	559.4	596.2

NOTE: Includes outlays for all Federal service equal employment opportunity, including Upward Mobility, reported by departments and agencies to the CSC, but excludes contract compliance activities.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

National Aeronautics and Space Administration  
1980 Budget Summary  
(\$ in millions)

	1978 Actual	1979 Estimate		1980 Estimate		1981 Estimate		1982 Estimate	
		Initial Request	OMB Recom.	Initial Request	OMB Recom.	Initial Request	OMB Recom.	Initial Request	OMB Recom.
Budget Authority	4,064	4,535	4,535	4,913	4,688	5,010	4,561	5,003	4,300
Outlays	3,979	4,372	4,372	4,700	4,556	4,874	4,568	4,918	4,386
FTP Employment <u>1/</u>	23,255	23,255	22,831	23,255	22,563	xxx	xxx	xxx	xxx

1/ The only issue for NASA involves civil service employment which is presented for your consideration.

Major Decisions

The following program for NASA has been agreed upon by NASA and OMB:

- ° Space Shuttle development and production will continue on schedule for a first orbital flight by the end of 1979 and initial operations in 1981. A FY 1979 Supplemental Appropriation of \$185 million is recommended to maintain the development schedule.
- ° Multi-year planning levels are provided for space science, applications and technology consistent with your space policy and overall fiscal objectives. The recommendation provides for:
  - No new flight projects in 1980, but allows for new flight projects in the 1981 and 1982 budgets. Development of ongoing flight projects (e.g., Space Telescope, Landsat) will be continued.
  - A 1980 research initiative to explore further the value of remote sensing for improving worldwide crop forecasts. The Departments of Agriculture and Commerce and NASA are jointly funding the project.
  - A 1980 research initiative to develop advanced satellite communications technology with potential application for reducing projected frequency spectrum overcrowding.

National Aeronautics and Space Administration  
1979 and 1980 Employment

	FTP's	
	1979	1980
NASA budget submission	23,255	23,255
OMB developed the initial allowance using the following logic, with 1978 as a base:		
- Space shuttle development personnel levels as NASA requested .....	--	--
- Space flight operations levels increased at the rate of budget authority ...	-188	-321
- Expendable launch vehicle levels decreased at the rate of outlays .....	-14	-11
- No increase over any prior year levels provided in other programs .....	-289	-492
- The ratio of total to direct personnel was maintained at the 1978 ratio .....	-93	-188
Total change .....	-584	-1,012
Initial Allowance .....	22,671	22,243
NASA appeal to insure maintenance of the shuttle schedule .....	(+225)	(+375)
NASA minimum to maintain the shuttle schedule .....	+160	+320
Minimum total to maintain shuttle schedule .....	22,831	22,563
Employment ceiling - adjusted for Leach amendment .....	22,790	--

Dr. Frosch will present the NASA arguments for the need to restore shuttle positions.

OMB agrees with NASA that:

- in the initial buildup for Shuttle operations, space flight operations personnel levels should not be based on a simple relationship with changes in budget authority; and
- at the initial allowance level, because of bumping privileges in personnel regulations, key personnel--important for initiating shuttle operations--could be displaced.



National Aeronautics and  
Space Administration

Washington, D.C.  
20546

Office of the Administrator

December 18, 1978

The President  
The White House  
Washington, DC 20500

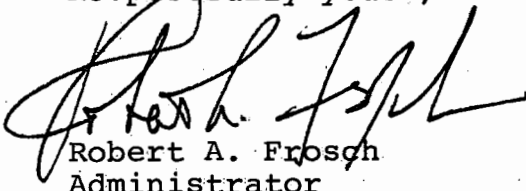
Dear Mr. President:

I have reached agreement with the Office of Management and Budget on NASA's Fiscal Year 1980 budget. The Office of Management and Budget and I have also agreed on a necessary adjustment to the Civil Service staffing levels initially assigned to NASA.

Specifically, we request restoration of 160 positions at the end of Fiscal Year 1979 and 320 positions at the end of Fiscal Year 1980 so that we can carry out our programmatic commitments on the Space Shuttle. NASA had already planned a phased reduction of staffing levels related to the Shuttle program consistent with completion of development and initial flight testing. Further reductions in this area during the period of intensive preparations for the early flight missions would place an unreasonable burden on those charged with program responsibilities, both in terms of accomplishing specific tasks and of maintaining the reliability essential to achievement of this highly demanding and complex effort.

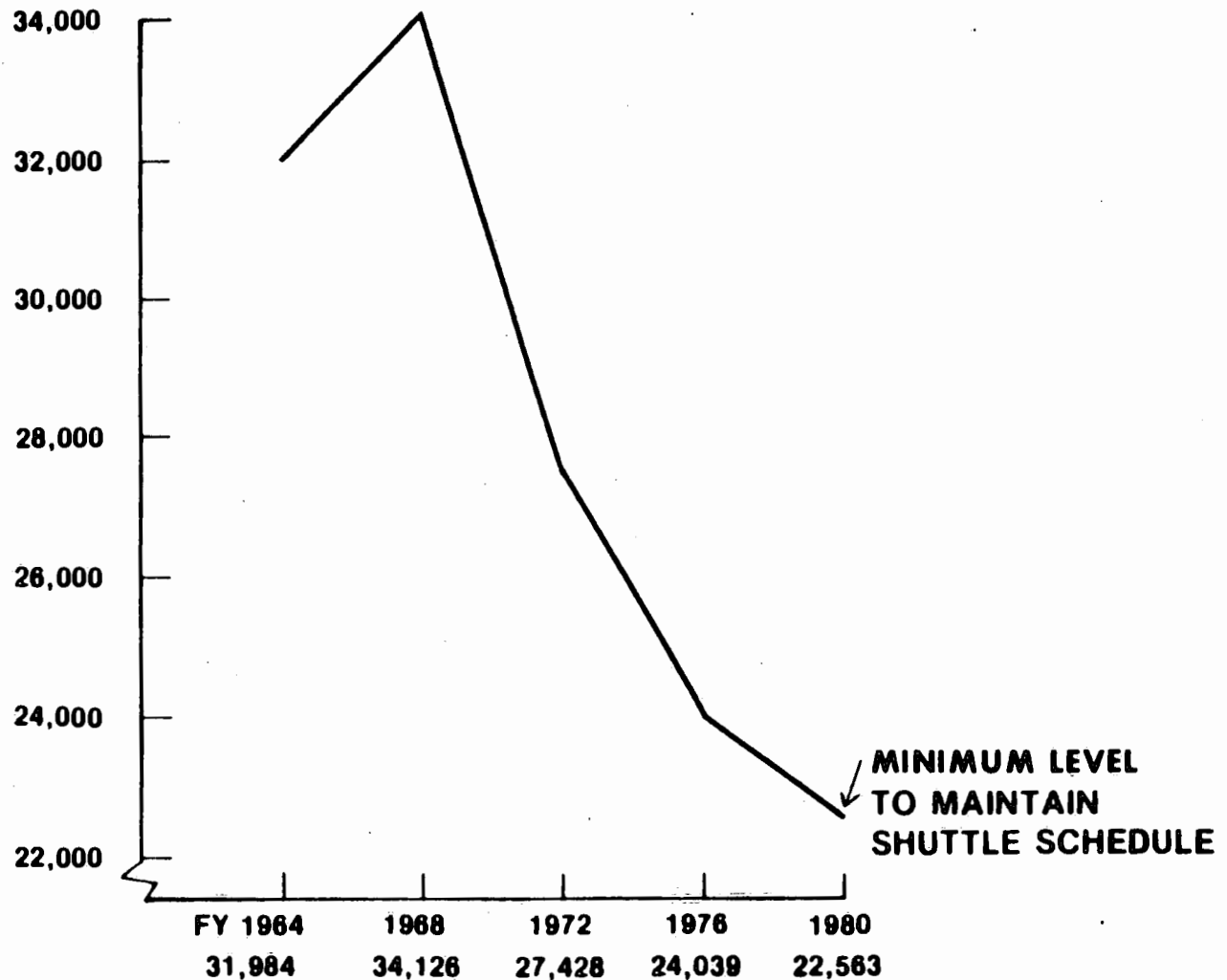
For these reasons, I recommend your approval of the proposed adjustment and request the opportunity to discuss this subject with you.

Respectfully yours,



Robert A. Frosch  
Administrator

# NATIONAL AERONAUTICS & SPACE ADMINISTRATION CIVIL SERVICE STAFFING





DEPARTMENT OF ENERGY

Department of Energy  
1980 Presidential Review  
Summary

Department of Energy - Totals (\$ in millions)	1979	1980					1982
	Enacted	Agency Req.	Initial OMB Rec.	DOE Appeal Δ	OMB Cur. Rec. Δ	Revised Total	OMB Rec.
<u>Program (BA)</u>							
Supply (mostly R&D) .....	4849	5764	4910	+511	+ 47	4937	5683
Conservation .....	685	1072	622	+178	+ 26	648	875
Info., Policy & Regulation....	557	951	688	+107	+ 42	730	558
Basic Science .....	433	478	472	- 3	- 1	471	470
Weapons R&D/Production .....	2580	3162	2733	+410	+206	2939	2906
Revenues (Uran. Enrich., Naval Petroleum Res.) .....	-2394	-2329	-2425	--	--	-2425	-3197
Carryover Unobligated Balances	--	--	--	--	--	- 195	--
Subtotal BA .....	6710	9098	6805	+1203	+320	7125	7295
Emerg. Preparedness, e.g. SPR	<u>3005</u>	<u>1355</u>	<u>33</u>	<u>--</u>	<u>--</u>	<u>33</u>	<u>1713</u>
Total BA .....	9715	10453	6838	+1203	+320	7158	9008
Total Outlays .....	<u>9015</u>	<u>10534</u>	<u>8593</u>	<u>+ 834</u>	<u>+305</u>	<u>8898</u>	<u>9319</u>
Other than Emerg. Prep.....	6634	8200	6635	+1203	+226	6861	6903
Emergency Preparedness ....	2381	2334	1958	--	+ 79	2037	2416

Excluding the Strategic Petroleum Reserve (SPR), the initial OMB allowance provided for some increases in BA, outlays, and FTP positions for DOE activities. DOE has appealed for further increases of \$1.2 billion in BA, \$834 million in outlays, and 1289 FTP positions in the non-SPR programs. OMB agrees with DOE that some adjustments, totaling \$305 M in outlays, to the initial allowance are necessary, particularly in the high priority nuclear defense R&D, testing and production activities and defense waste management programs, which constitute \$120 M of the total outlay adjustment.

For DOE and FERC FTP positions, OMB suggests that the President consider increases of 216 in 1979 and 380 in 1980 if further increases are possible.

Issues which remain in the Strategic Petroleum Reserve program will be discussed in your final budget appeals meeting on Thursday afternoon; therefore, those issue papers are contained in the briefing book for that session.

Beyond these adjustments to the initial OMB allowance with which the Department has agreed, DOE is appealing for additional funding for the construction of a Solvent Refined Coal demonstration project (SRC I). In addition, DOE appeals for 100 more positions in FY 1979 above the level which OMB has suggested you consider.

Summary of Appeal Issues (\$ in millions)										
		1980			1981			1982		
Issue		<u>Initial Allow.</u>	<u>Agency Appeal</u>	<u>OMB Rec.</u>	<u>Initial Allow.</u>	<u>Agency Appeal</u>	<u>OMB Rec.</u>	<u>Initial Allow.</u>	<u>Agency Appeal</u>	<u>OMB Rec.</u>
1. Solvent Refined Coal (SRC-I)										
Demonstration Plant										
(see Tab A)										
	BA	0	58	0	0	203	0	0	197	0
	BO	0	30	0	0	93	0	0	159	0
		1979			1980					
		<u>Initial Allow.</u>	<u>Agency Appeal</u>	<u>OMB Rec.</u>	<u>Initial Allow.</u>	<u>Agency Appeal</u>	<u>OMB Rec.</u>			
2. Staffing FTP (Tab B)										
DOE Total		19,407	20,303	19,623	18,658	19,967	19,038			
FERC		1,734	2,094	1,800	1,670	2,105	1,800			
DOE (ex Ferc)		17,673	18,209	17,823	16,988	17,862	17,238			

### Highlights of the DOE Appeal

The following highlights the major remaining differences between the agency request on appeal and the revised OMB recommendation on appeal.

#### SRC I Demonstration Plant (DOE 1980 request \$58 M BA; OMB recommendation, \$0 M BA). (Tab A)

- ° The DOE has requested funds in FY 1980 to construct two commercial-scale coal conversion plants using solvent refined coal technology. One of the demonstration plants would use the SRC II process which converts coal into a clean liquid fuel. The other would use the SRC I process and converts coal into a clean solid fuel. The agency requested \$25 M BA for the SRC II project and \$58 M for the SRC I project in FY 1980. The SRC II project, with total cost of \$700 M, would be cost-shared with private industry (25%) and foreign interests (50%). The total cost of the SRC I plant is estimated to be \$700 M, a portion of which (expected to be up to 25%) will be cost-shared by private industry. DOE's view is that SRC solids would be economic in existing coal burning power plants.
- ° OMB recommends funding the SRC II liquids project but does not recommend funding the solids producing SRC I facility. OMB believes that the higher costs of SRC I will prevent SRC I from competing with other sulfur removal technologies in existing plants.

#### Employment (Tab B)

- ° DOE originally appealed for 896 full time permanent (FTP) positions in 1979 and 1,309 in 1980 more than the initial allowance of 19,407 in 1979 and 18,658 in 1980, to better implement new energy legislation and otherwise support the President's energy program.
- ° OMB suggests consideration of 216 FTP in 1979 and 380 FTP in 1980 over the initial allowance if the government wide employment situation permits. This would adequately staff the energy program, exceeding the Civil Service Reform Act pro rata targets by 900 in 1979 and by over 300 in 1980.
- ° DOE is now appealing for 100 positions in 1979 and none in 1980 above the OMB suggestion on appeal. OMB believes no further increase is justified.

## TABLE OF CONTENTS

TAB A:	Solvent Refined Coal (SRC-I) Demonstration Plant Issue. . . . .
TAB B:	DOE Staffing Issue.....
TAB C:	DOE FY 1980 Appeal Letter . . . . .



Issue Paper  
Department of Energy  
1980 Budget

Appeal Issue #1:  
Coal Research and Development Program  
Solvent Refined Coal I Demonstration Plant

The DOE is appealing \$58 million BA/\$29 million BO in FY 1980 to initiate construction of a second demonstration plant to convert coal to a refined solids product (SRC I). This plant will cost an estimated \$700M through 1984, less industry cost sharing which is currently expected to be 25%.

Background

The SRC process has been under development by Gulf Oil Corporation for over 15 years with Federal support. The initial goal, production of a clean solid fuel, resulted in the development of the SRC I process. A modification to the original process led to the development of the liquid producing SRC II technology.

The DOE initially requested \$135M BA in FY 1980 to complete design work and begin advanced procurement and construction of two SRC plants:

	<u>Expected Location</u>	<u>TEC*</u>	<u>Federal %</u>	<u>DOE FY 1980 Request</u>	<u>OMB Recommendation</u>
-- SRC I (solids)	Kentucky	\$700M	75	\$58M BA / \$29M BO	--
-- SRC II (liquids)	West Virginia	\$700M	25	\$77M BA / \$21M BO	\$25M BA / \$5M BO

\* Total Estimated Cost.

OMB agreed to the construction of the SRC II plant but reduced the request to \$25M BA by assuming the expected contributions from the West German and Japanese Governments (25% each) and 25% industry cost sharing. The DOE has accepted this OMB pricing adjustment.

No foreign participants have been identified by DOE for the SRC I project. However, the Japanese have a pilot plant in operation which uses a somewhat similar process to SRC.

## History of the FY 1979 Budget for SRC Technology

- In January 1978, the President's FY 1979 budget contained \$35.5 M BA for activities related to SRC I and II, including \$23 M for the design of one demonstration plant, either SRC I or II. This request was approved after an agreement between DOE and OMB that there would be a complete comparison between SRC I and SRC II prior to selection of one.
- In May 1978, the Administration, in its "Supply Initiatives" package, proposed to initiate process design studies for four or five alternative coal liquid and coal solid demonstration plants. The studies would have been completed in mid-FY 1979. The proposal went on further to state that, "if the design studies and parallel negotiations on cost-sharing are successful on the SRC processes, DOE would proceed to detailed design for two plants, using the funds in the President's FY 1979 budget (\$23 million) and in FY 1980 would move into the procurement and construction phases for one or two plants."
- In October 1978, the FY 1979 Interior appropriation bill was signed which included \$70 M in un-requested construction funds for two SRC demonstration plants. Congress did add a caveat, however, that no funds may be obligated for "plant construction or equipment procurement" until Congress has had an opportunity to review the "proposed cost-sharing agreements for SRC I and SRC II."
- At this time only the preliminary designs for the two SRC projects are underway with DOE funding. Under the current 1979 OMB apportionment (as agreed to by DOE) none of the funds appropriated for construction by Congress in FY 1979 would be available for obligation until after January 1, 1979.

## Present Status of SRC Technology

- The DOE SRC pilot plant in Tacoma, Washington, has operated in both the SRC I and SRC II modes at 50 and 30 tons per day respectively. When modified to the SRC II process the pilot plant, experienced fewer technical problems, according to a report from Gulf Oil Corp., the plant operator, and required much less maintenance and had higher onstream operation (average of 85% on stream days versus about 68% for SRC I) than when operating in the SRC I mode.



- DOE and OMB agree that the majority of the principal SRC process steps are common to both the SRC I and SRC II processes. The major difference is that the SRC II process recirculates part of the product slurry producing more of the lighter fraction coal-liquid rather than the difficult liquids-solids filtration technology of SRC I.
- The proponents for the SRC I plant (Southern Company) and the SRC II plant (Gulf Oil Corporation) are currently developing preliminary plant designs for 6000 ton per day facilities. These will be submitted in July and April, 1979, respectively.
- Although OMB would have preferred to proceed on the May 1978 multiple-design-study competitive-selection track for the FY 1980 budget, OMB now recommends that DOE proceed with the SRC II plant because of the need to demonstrate a coal conversion technology which can substitute for imported oil and because of the technology spinoffs to other coal liquid producing processes.

#### Statement of Issue

Should DOE construct both liquid and solid SRC demonstration facilities?

#### Alternatives

1. Initiate FY 1980 construction starts for both the SRC I solids and SRC II liquids demonstration plants. (Agency recommendation)
2. Fund only the SRC II (liquids) demonstration plant. (OMB recommendation)

#### Major DOE Points for Consideration

DOE believes that both versions of the SRC process should be demonstrated since the liquid and solid products are aimed at two different but equally important markets. SRC I solids would be used in existing coal burning utilities and the SRC II liquid would be preferred for new facilities. Although there is similarity between the two processes, scale up of both technologies to commercial size is necessary to demonstrate feasibility to the respective market sector.

- For existing coal burning plants DOE argues that use of SRC I offers better reliability and requires less capital investment and less operating costs than retrofitting with scrubbers. Also SRC I requires only minor modifications for many boilers, and the infrastructure for handling and transporting solids already exists. DOE stresses that this familiarity with solids is important to the utility industry's adoption of a new technology.

- SRC I is also ideally suited for those uses where retrofit of existing coal-fired boilers with alternate control technology, i.e., scrubbers, is problematic, especially in urban environments.
- Use of SRC I will prevent the displacement of Eastern high sulfur coal production with Western low-sulfur coal that has some associated transportation and political impacts.
- The market for aluminum anode coke is equivalent to about 10,600 tons per day of SRC I, currently all produced from petroleum. SRC I is a preferred feedstock for anode coke, and will compete effectively for this market, thereby reducing and possibly eliminating the financial risks of the demonstration project. SRC I demonstration plant production would be 6000 tons per day.
- Based on commercial availability of the SRC technology in late 1980's and the time required to build a plant, DOE estimates five 30,000 ton/day plants producing 35M tons of SRC I per year could be on line by 1995.

#### Major OMB Points for Consideration

OMB maintains that the DOE identified market for SRC I in existing boiler facilities, will not exist for the following reasons:

- By the time commercial SRC I plants are extensively available (early 1990's) all existing utility plants (1) will have been committed to a sulfur control technology, e.g., scrubbers, (2) would be operating under a State approved variance, or (3) will have been shut down.
- The alternative sulfur control technologies, e.g., scrubbers and coal cleaning, will have a lower total cost (including capital operating, and fuel costs) than SRC I (see attached chart). Therefore, there will be no incentive to use SRC I because of its higher cost.

SRC I solids would not be able to compete successfully with SRC II because:

- SRC I and SRC II boiler fuels will cost about the same on a comparable Btu basis in existing and new utility plants.
- SRC II would require less fuel storage space, much lower capital investment and operating costs in new plants, and would have convenience advantages when compared to a new SRC I solids burning plant.

OMB also points out that large commercial-scale coal conversion demonstration plants are very expensive (SRC I, \$700 M), technically risky, and represent a new endeavor for Government energy research. OMB questions the wisdom of doubling these risks by building simultaneously two such facilities which would demonstrate essentially the same technology.

The anode coke market application identified by DOE for SRC I is and will be far too small compared with the utility fuel burning markets to justify building a Federally funded demonstration plant. OMB believes that scarce Federal demonstration funds should be used where they will have much broader future impacts than supplying such a limited market, i.e., one SRC plant's output.

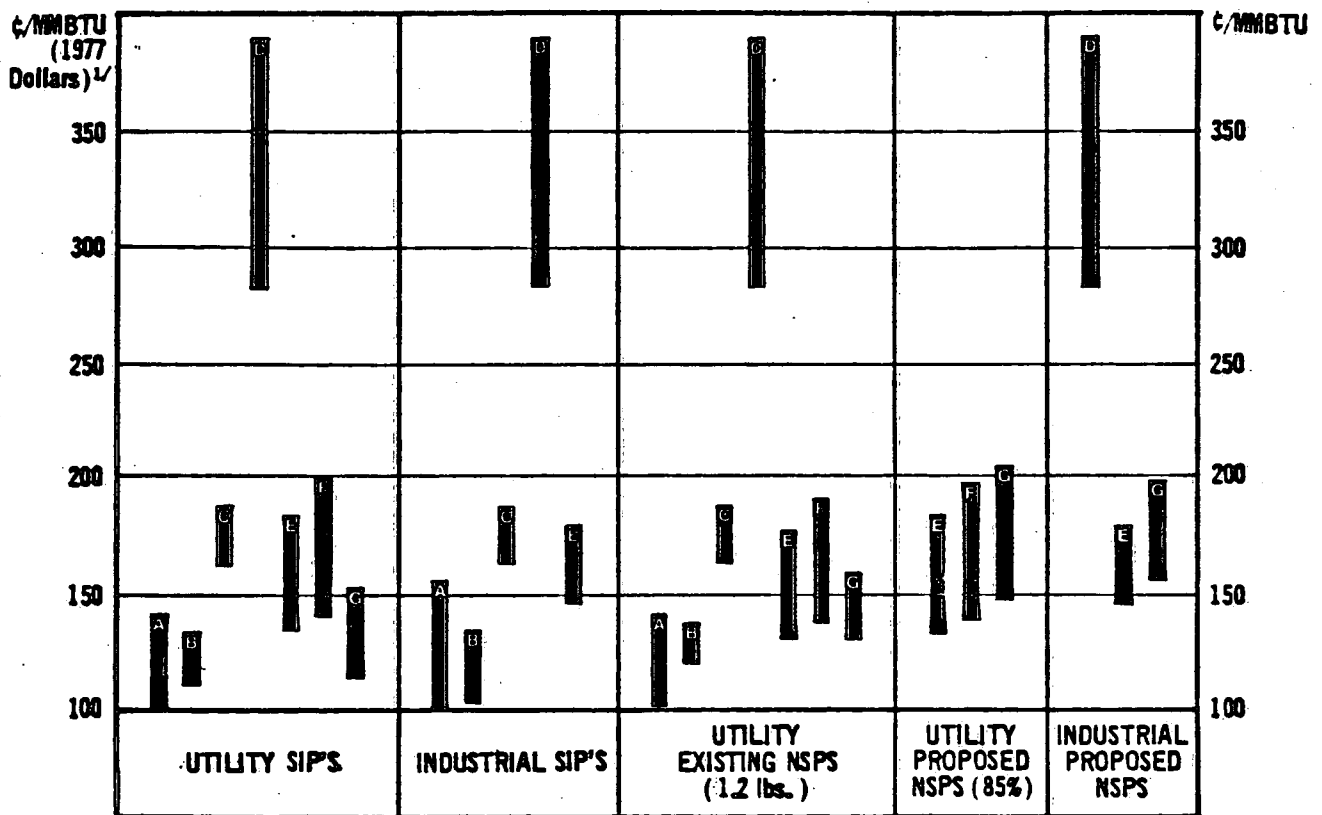
Finally, a successful demonstration of the SRC II technology would answer many of the economic and technical issues associated with the SRC I technology. In the interim, the technical problems unique to SRC I, e.g., solid-liquids separation and solids formation could be adequately researched and tested in the existing SRC pilot plant. If this were done construction of commercial SRC I plants could be undertaken by the private sector in the late 1980's without incurring the costs of building a separate SRC I demonstration plant.

Budget Authority/Outlays  
(\$ in Millions)

	1978		1979		1980		1981		1982		1983		1984	
	<u>BA</u>	<u>BO</u>	<u>BA</u>	<u>BO</u>	<u>BA</u>	<u>BO</u>	<u>BA</u>	<u>BO</u>	<u>BA</u>	<u>BO</u>	<u>BA</u>	<u>BO</u>	<u>BA</u>	<u>BO</u>
Alt. #1 (Agency Req.)														
SRC I	--	--	48	20	58	29	203	93	196	159	140	189	45	133
SRC II*	--	--	<u>43</u>	<u>13</u>	<u>25</u>	<u>5</u>	<u>46</u>	<u>23</u>	<u>49</u>	<u>42</u>	<u>35</u>	<u>49</u>	<u>11</u>	<u>33</u>
Total			91	33	83	34	249	116	245	201	175	238	56	166
Alt. #2 (OMB Rec.)														
SRC II	--	--	43	13	25	5	46	23	49	42	35	49	11	33

\*Reflects non-Federal contributions from industry (25%) and foreign nations (50%).

# VARIABILITY IN ANNUAL COSTS FOR PRE- & POST-COMBUSTION CLEANUP TECHNOLOGIES



**A - LOW-SULFUR COAL.** Represents range of premium and transportation costs for eastern and western low-sulfur coals.

**B - PHYSICAL COAL CLEANING.** Includes cost of lost Btu's. Refuse disposal costs, compaction costs, tax benefits, and reduced transportation and pulverization costs not included.

**C - CHEMICAL COAL CLEANING.** Includes cost of lost Btu's and coal preparation and compaction (25-34¢/MMBtu); waste disposal costs and by-product credits not included.

**D - SOLVENT REFINING.** Includes cost of lost Btu's and filter aid. Refuse disposal costs and by-product credits not included.

**E - NON-REGENERABLE FGD.** Includes cost of fly ash disposal steam (\$2/MMBtu) and electricity (\$.029/kWh). Sulfate sludge disposal by ponding.

**F - REGENERABLE FGD.** Includes cost of fly ash disposal. Steam and electricity costs included. No by-product credits.

**G - PHYSICAL COAL CLEANING/FGD COMBINATION.** Includes cost of lost Btu's. PCC credited with pulverization, transportation, and maintenance cost savings. Refuse disposal costs not included.

**NOTE:** The ranges presented above are derived from estimates of the variability in capital and operating costs for each technology using single point estimates for cleaning a 3.5% coal by each technology. Estimates of variability will differ from source to source and hence should be treated with caution.

1/ Cost based upon raw coal cost of \$1/MMBtu for both high- and low-sulfur coal.

**SOURCE:** EEA, See appendix C for cost derivations.

TAB B

DEPARTMENT OF ENERGY  
1980 Budget

1979 Employment

	<u>FTP's</u>
Original 1979 ceiling (also ceiling when DOE was first formed).....	19,109
The ceiling, adjusted for transfer of functions to Commerce and Labor, at the beginning of the budget season was.....	18,983
The Department requested an additional: 222 positions to cover employees that gained full time status as a result of the DOE Organization Act; 171 for the Western Area Power Administration; 733 positions for the Federal Energy Regulatory Commission (FERC) to implement the National Energy Act (NEA) and reduce backlogs; and 476 positions principally to implement other provisions of the NEA (data collection, conservation, etc.).....	<u>+1,602</u>
The Department has therefore requested for 1979.....	20,585
We have reviewed the request and reduced it by slipping FERC backlogs and assuming improved FERC productivity (-360), implementing the NEA using fewer personnel (-279), and other changes including use of higher end-of-year vacancy level (-539).....	<u>-1,178</u>
This brings the total allowance to.....	19,407
Consideration of increases, if possible, would be warranted in the following areas:	
° To more effectively implement NEA.....	+125
° To further reduce backlogs at Federal Energy Regulatory Commission.....	+66
° To maintain high level of petroleum audit program and thus permit 1980 phasedown.....	+80
° Other (SPR, WAPA, etc).....	+62
° Offsetting adjustments.....	<u>-117</u>
Total OMB recommendation for consideration.....	19,623

DOE believes more positions are necessary to improve program management.....	<u>+100</u>
The DOE appeal total is therefore.....	19,723

DEPARTMENT OF ENERGY  
1980 Budget

1980 Employment

FTP

The Department requested for 1980 .....	20,209
-- This was 376 positions less than the 1979 request, reflecting a 542 position reduction in petroleum audits and a 166 position increase in a variety of programs supporting the National Energy Act.	
The OMB allowance is .....	18,658
-- It continues the policies assumed in the allowance for 1979.	
-- It accepts the Department's rationale of reducing petroleum audits, but not the rationale for the various program increases. Also, it provides for a 207 position reduction in overhead functions in the field offices, bringing the 1980 allowance 749 positions below the <u>1979 OMB allowance</u> .	
On further review, consideration of a net increase of 380 positions would be warranted--130 for FERC and 250 for the rest of the Department.....	<u>+380</u>
Total OMB recommendation for consideration.....	19,038



TAB C



Department of Energy  
Washington, D.C. 20585

December 4, 1978

Dear Mr. McIntyre:

This letter transmits my appeal of the FY 1980 budget allowance provided to the Department by the Office of Management and Budget. As you know, there are several open issues for which the Department has yet to receive a final allowance. These include:

- o the Strategic Petroleum Reserve for which no allowance has been provided pending further joint DOE-OMB review,
- o the sodium cooled breeder program, and
- o commercial waste management activities.

It is my understanding that resolution of these issues is anticipated during the next three weeks. As a result, they will be the subject of separate correspondence at the appropriate time.

In assessing the allowance that has been provided, we have been mindful of the fiscal uncertainties the Nation currently faces as well as our present and future energy posture. That assessment leaves me with several concerns which are reflected in the appeal summarized below:

	(\$ in millions)	
	<u>BA</u>	<u>BO</u>
Departmental Request .....	\$9,131	\$8,199
OMB Allowance .....	<u>6,974</u>	<u>6,879</u>
Reduction .....	\$2,157	\$1,320
Appeal Amount .....	\$1,075	\$ 785

### Energy Technology

Our FY 1980 request provided a modest 5.5% growth for energy technology development programs, from \$3.075 billion to \$3.243 billion (Attachment 1). This growth was focused on the fossil and solar energy technologies, as well as expansion of the basic energy sciences activities which underpin the energy development programs. The OMB allowance of \$2.903 billion would result in more than a 10% reduction for these same activities when the effects of inflation are taken into account.

Important technology development initiatives affected adversely by this reduction include:

- o the Solvent Refined Coal Demonstration Plant which produces a clean burning solid fuel. This synthetic product is expected to be a critical fuel in the 1990's particularly for utility retrofit applications in non-attainment areas.
- o the oil shale technology base R&D program which is essential to the development of advanced extraction processes.
- o efforts to gain better knowledge of the character and potential contribution of unconventional gases to the Nation's energy profile.
- o the ability to pursue the effective development of all sizes of wind energy machines, particularly those aimed at utility applications.
- o the High Temperature Gas Reactor program which has been redirected to support direct cycle and process heat applications.

I believe it is necessary to restore these programs to the requested level in order to continue a balanced and effective technology development program.

### Energy Technology Deployment

The FY 1980 budget proposed by the Department placed strong emphasis on activities necessary to deploy energy technologies as technical readiness is achieved. The OMB allowance substantially reduced or eliminated the majority of these initiatives. OMB and the Department appear to hold a divergent viewpoint with regard to how long the Nation can wait to begin making use of those energy sources which provide an alternative to domestic and imported oil.

There are three major deployment programs which I believe it is essential to restore. The first of these includes activities aimed toward the near-term commercialization of solar technologies which are approaching

market readiness. The Department requested \$224 million for solar heating and cooling demonstrations, supporting systems development efforts, and solar technology transfer initiatives.

The major OMB reduction in these activities of \$92 million seems inconsistent with the Solar Domestic Policy Review recommendations which found a lack of emphasis on near-term commercialization activities. Tax credits alone are not yet sufficient, especially with regard to the market penetration of solar space heating and solar cooling. It is our belief that these actions would seriously damage the emerging solar industry. Restoration of \$80 million for these activities is proposed.

The OMB allowance reduced the Department's small hydroelectric power program from \$130 million to \$14 million. Restoration of \$38 million of that amount would provide sufficient funds to pursue commercialization of small hydroelectric power through demonstration projects, engineering development, and construction loans. Construction loans are necessary if we are to attain any near-term contributions from this underutilized clean energy source.

We believe it necessary to continue the initiative begun in FY 1979 to accelerate commercialization of synthetic high-Btu gas through loan guarantees. The OMB allowance eliminated this program. We have reduced our request from \$234 million to \$98 million, which should be adequate to permit the Department to proceed with this program with support to one commercial plant.

#### Nuclear Waste Management

The FY 1980 request provided a major increase for management of both commercial and defense nuclear wastes. I believe it imperative that we undertake an aggressive program to deal with this question so fundamental to the viability of the nuclear option. The OMB allowance for defense waste management activities reduced our request from \$456 million to \$236 million, 7.5% below the FY 1979 appropriation. I find this action totally unacceptable.

Funding for both defense and commercial waste management should be restored to the requested level. I understand that final resolution of this issue is pending the completion of the Interagency Review Group (IRG) Study. Recommendations of the IRG to date appear to require resources even beyond those requested by the Department for FY 1980.

#### Defense Programs

The FY 1980 request for weapons R&D, testing and production was kept to a minimum to maintain a strong capability while beginning to upgrade the deteriorating facilities throughout the weapons complex. The OMB allowance reduced funding for these activities from \$1.671 billion to \$1.588 billion. Given the austere character of the original request, it is necessary to restore virtually all of the OMB reduction.

## Manpower

The necessity to reduce the growth of the Federal workforce is clearly understood within the Department. In fact, we have achieved economies since being established slightly more than one year ago. However, with the additional workload placed on the Department to implement the National Energy Act (NEA) as well as the need to strengthen project management capabilities, the allowance provided by the OMB is too constraining. Restoration to the levels indicated below is essential.

### Full-Time Permanent Positions

	<u>FY 1979</u>	<u>FY 1980</u>
Departmental Request .....	18,491	18,104
OMB Allowance .....	<u>17,673</u>	<u>16,988</u>
Reduction .....	818	1,116
Appeal Amount .....	536	874
Revised Request .....	18,209	17,862

Excluding the Federal Energy Regulatory Commission (FERC), the Department's ceiling in FY 1978 was 18,235. The revised requests for FY 1979 and FY 1980 are 18,209 and 17,862 respectively, which is below the FY 1978 level. Furthermore, during this period we are taking the following major actions to reduce or redeploy positions:

- o 391 positions will be eliminated in overhead and support activities in FY 1979 both in Headquarters and field and redeployed to increase the number of positions directly involved in program and project management.
- o 472 positions in the Economic Regulatory Administration's compliance programs will be eliminated in FY 1980.
- o We will have reduced over 700 other than full-time permanent positions from our FY 1978 level.

Our appeals for FY 1979 and FY 1980 are related primarily to the impact of the NEA and to reductions applied to the field organizations in spite of the fact that our efforts to strengthen project management require significantly increased field capabilities. Even within our appeal level we will still be redeploying a large number of positions to perform NEA functions. In the face of the above circumstances we are convinced that our appeal level represents the minimum number of positions which the Department requires to perform its ongoing activities and its new NEA responsibilities in an effective manner. FERC is appealing that their entire requested level be restored in both FY 1979 and FY 1980 to continue to reduce the backlog and effectively implement the NEA.

Detailed justification regarding these and other program elements for which funding is being appealed has been provided to your staff. An appeal covering decisions reached to date on several FY 1979 Supplemental requests also has been provided.

I look forward to meeting with you in the near future.

Sincerely,

  
James R. Schlesinger  
Secretary

Honorable James T. McIntyre  
Director, Office of Management  
and Budget  
Washington, D.C. 20503

Attachments

DEPARTMENT OF ENERGY

ENERGY TECHNOLOGY PROGRAMS

(\$ in Millions)

	<u>FY 1979</u>	<u>FY 1980 Request</u>	<u>FY 1980 Allowance</u>	<u>FY 1980 Appeal</u>
Fossil .....	\$ 810	\$ 896	\$ 736	\$ 820
Solar .....	355	480	442	480
Geothermal .....	156	139	139	139
Magnetic Fusion .....	353	377	361	367
Nuclear .....	1,087	985	885	993
Basic Energy Sciences .....	216	275	257	257
Other Programs .....	<u>98</u>	<u>91</u>	<u>83</u>	<u>95</u>
	<u>\$3,075</u>	<u>\$3,243</u>	<u>\$2,903</u>	<u>\$3,151</u>

DOE FULL-TIME PERMANENT POSITIONS  
(Excluding FERC)

	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>
Ceiling * . . . . .	18,235	-	-
DOE Request . . . . .		18,491	19,104
OMB Passback . . . . .		17,673	16,988
Difference . . . . .		-818	-1,116
DOE Appeal . . . . .		+536	+874
DOE Revised Request . . . . .		18,209	17,862

\*Adjusted to reflect transfers to DOL and DOC.



DEPARTMENT OF ENERGY  
(STRATEGIC PETROLEUM RESERVE)



# WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
Memo	McIntyre to Pres. Carter, w/attachments 3 pp., re:DOD topics	12/27/78	A
Memo	McIntyre to Pres. Carter, w/attachments 22 pp., re:Strategic Petroleum Reserves	12/20/78	A

## FILE LOCATION

Carter Presidential Papers-Staff Offices, Office of Staff Sec.-Presidential  
Handwriting File, 12/21/78 Box 113

## RESTRICTION CODES

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ECONOMIC ASSUMPTIONS

December 20, 1978

Economic Outlook for 1979 and 1980

Summary

The pace of economic activity is holding up remarkably well in the fourth quarter. The preliminary (unpublished) estimates of the Commerce Department put fourth quarter growth at 5 percent. All of the signs point to continued strength in the immediate future. Inflation, however, is continuing at high rates.

Most prominent private forecasters expect that growth will slow very sharply in 1979, and that the economy will undergo a recession starting in the second half of the year. Most of those forecasting a recession expect it to be mild and short-lived, with a recovery in 1980.

The outlook is very uncertain, and there are some shades of difference in the views of your economic advisers as to the probable course of the economy over the next two years. But the consensus view among them is that there will not be a recession next year, although growth will slow substantially, and then pick up moderately in 1980.

We plan to publish an economic forecast showing economic growth of 2.4 percent during the four quarters of 1979, with inflation at 7-1/2 percent. Both growth and inflation would be higher than these averages in the first half of the year and lower in the second. In 1980 we expect

a moderate strengthening in growth to 3.2 percent. Unemployment would rise to about 6.2 percent by the end of 1979 and remain there in 1980.

The variance between our forecast and those of many outside economists does not stem from a different appreciation of the current state of the economy, but from their general view:

- o that the inflation rate -- especially in the first half of the year -- will remain quite high and that the wage/price standards will have little effect; and
- o that the Fed, responding to high inflation, will keep on tightening money and credit, relaxing only when the economy is tipping over into a recession.

#### Assumptions Underlying the Forecast

The principal policy assumptions underlying the forecast are set forth in Table 1. The assumptions about the success of the anti-inflation program and its relation to the course of monetary policy are particularly important.

Business response to the program appears to be quite positive and, on the basis of extensive contacts, we believe that most businesses will abide by the price standards. Also, businesses are likely to enforce the pay standard in the nonunion area and with respect to smaller and weaker unions. Compliance by the larger labor unions will be more difficult to achieve. There is reason for hope



Table 1

Assumptions Underlying the Economic Forecast

Budgetary Policy

- o Budget outlays are assumed to be \$495 billion in FY 1979 and \$532 billion in FY 1980
- o No tax cuts other than those contained in the Revenue Act of 1978.

Anti-Inflation Program

Two-thirds of the workers not exempt from the program are in compliance.

- o Private wages and fringes rise at an annual rate of between 8 and 8-1/4 percent in 1979, and one-half percentage point less in 1980.
- o There is widespread compliance on the price side.
- o The inflation rate drops to 7.4 percent in 1979 and to 6.4 percent in 1980.

Monetary Policy

- o Short-term interest rates rise only moderately further. The Federal funds rate reaches a peak of 10-1/4 percent in the first quarter.
- o In the second half of 1979, interest rates begin to decline in response to a moderating inflation rate and slower economic growth.

-- but far from certainty -- that the Teamsters may settle at or close to the pay standards. We believe there is a reasonable basis for expecting a significant reduction in the rise of wage rates, costs and prices next year, but we cannot be sure.

If inflation moderates and economic growth slows, interest rates will decline unless the Federal Reserve resists downward market pressures on interest rates in order to reduce the growth rates of the monetary aggregates. We assume that interest rates will be permitted to decline gradually.

The course of monetary policy is central to the forecast. If the rate of inflation does not respond to the anti-inflation program, and if therefore interest rates either rise sharply further in the near term, or do not begin to decline after midyear 1979, the outlook for both 1979 and 1980 would be bleaker than we now forecast. A recession in late 1979 or in 1980, with a significant rise in unemployment, would then be more likely.

#### Economic Forecast

The key economic variables in the forecast for 1979 and 1980 are shown in Table 2. Real GNP growth is expected to slow from 4.0 percent in 1978 to 2.4 percent in 1979. Growth will be lower in the second half of the year than in the first half. A pickup to 3.2 percent is forecast for 1980. Since growth would be below the economy's long-term

Table 2

Key Variables in the Economic Forecast

	<u>1978</u>	<u>1979</u>	<u>1980</u>
Real GNP Growth (Q-4/Q-4 percent)	4.0	2.4	3.2
Inflation Rate (Q-4/Q-4, percent)	8.4	7.4	6.4
Unemployment Rate (Q-4, percent)	5.8	6.2	6.2



potential in 1979, the unemployment rate would rise next year to 6.2 percent by the fourth quarter, and then stay at that level in 1980. The decline in the inflation rate during 1979 and 1980 largely reflects the effects of the anti-inflation program.

Before discussing the forecast, we should note that the figures in this table are those we expect to publish in January. They are a shade more optimistic than the internal Administration consensus forecast, which is for a real growth rate of 2.0 percent in 1979, an inflation rate of 7.6 percent, and a 6.3 percent rate of unemployment by the fourth quarter. A mild degree of optimism seems to us appropriate to buoy confidence that the economy can make it through the next year without tipping into recession. It will also help ward off efforts by the Congress to raise expenditures to stimulate a sluggish economy.

The slowdown in growth forecast for next year reflects several factors:

- o The rise in interest rates to date will result in a moderate decline in housing starts and slower growth of business fixed investment in 1979. A "crunch" in housing will be avoided.

- o Growth in State and local spending is expected to slow. The effects of the 1977-78 stimulus program are largely behind us; the operating surplus of State and local governments has already declined significantly, and the spread of Proposition 13 sentiment will lead to restraint on State and local expenditures.
- o Although consumer spending will be bolstered by the tax cut early in the year, this stimulus will be partly offset by the saving rate moving up toward more normal levels. Slower growth of business investment and the decline in housing will limit the rise of real consumer incomes next year, and this will also dampen the rise of consumer outlays.

The pickup in economic activity forecast for 1980 stems largely from an expected response of housing to declining interest rates as the inflation rate improves. Demographic factors are very favorable for homebuilding, and if pressures in money and credit markets ease later next year, housing starts

and residential construction should begin rising again. A moderating inflation rate would also be conducive to an upturn in growth in 1980 because:

- o Consumer confidence would improve and lay the basis for a somewhat larger increase in personal consumption expenditures than in disposable income.
- o Businesses would be encouraged to maintain a rate of expansion in capital outlays that is higher than the growth rate of real GNP.

### Uncertainties and Risks in the Forecast

Economic forecasts contain large elements of uncertainty. At the present time, the uncertainties in the economic outlook are greater than at any time since you became President. It is therefore important that you be aware of the principal uncertainties.

(1) The rise in interest rates to date may depress housing and business fixed investment more than we have allowed for. Monetary restraint is not working the way it used to, in part because of the new money-market certificates. Past history therefore gives us very little guidance. Available statistics suggest no effect at all yet on housing, and provide inconclusive evidence of how business plans are being affected. It may be that the effects we used to see will merely be delayed; alternatively, the impact of rising interest rates may be much less than it used to be.

(2) Inflation may not moderate as much as we are forecasting. Our forecast is relatively optimistic on the outcome for wages and prices next year; it is quite unlikely that inflation will moderate more than we project. It would moderate less if compliance with the anti-inflation program were significantly worse than we have assumed, or if this year's very poor productivity experience continued. Failure to

make any progress on inflation would raise the odds on a recession, particularly because it would lead to tighter monetary policy and much higher interest rates.

(3) Monetary policy may not be as accommodating as we have assumed. Many private forecasters believe that a recession is inevitable because they expect the Federal Reserve to go too far toward restraint, and then stick with a tight money policy too long. On the basis of past experience, it is hard to fault this judgment. The likelihood of a "tight-money recession" will be much greater if the Fed sees no visible signs that our anti-inflation problem is working.

(4) A sharp and continuing decline in the dollar might put enormous pressure on us to take further restrictive actions that would reduce domestic economic growth. The exchange markets are again in a state of turbulence. Since December 1, the dollar has lost all of the gain that occurred since the end of October except for the jump that took place on November 1.

(5) Whenever economic growth slows, there is a risk that business and consumer expectations of further slowdown will lead to a cumulative process that culminates in a recession. The last recession was a severe one, and businesses, particularly are painfully aware of the losses they took by having unwanted inventories on the shelf and large amounts of idle capacity. They may react promptly to impending signs of weakness.

There is always a risk that a slow-growth economy will slide into a recession, and that risk is probably higher now than usual.

To sum up, our forecast is for a slowing of growth next year, but not a recession, and for a declining inflation rate that enhances the prospects for a pickup in growth in 1980. But the risks are weighted in the direction of a less favorable outcome.

#### Budgetary Results

The budgetary results consistent with the economic forecast are shown in Table 3. In fiscal 1979, the deficit would decline to \$40 billion; in fiscal 1980, the figure would be \$29 billion. The estimates for 1980 include a payout of \$2-1/2 billion for real wage insurance, which is the figure implied by the price forecast.

Table 3

Budgetary Results

(Fiscal Years, billions of dollars)

	<u>1979</u>	<u>1980</u>
Expenditures	\$495	\$532
Receipts	<u>\$455</u>	<u>\$503</u>
Deficit	\$ 40	\$ 29

WELFARE REFORM AND  
NATIONAL HEALTH PLAN



December 20, 1978

## WELFARE REFORM AND THE NATIONAL HEALTH PLAN

This paper presents proposals for budget treatment of welfare reform and the national health plan and recommendations on resource levels for welfare reform.

### Welfare Reform

EOP and concerned agencies, including HEW and DOL, have reached agreement on the general outlines and approximate resource levels for the next round of negotiations on welfare reform. Basic components of the welfare reform plan, described in 1982 costs, are:

AFDC Reform. A series of administrative changes and benefit improvements, estimated to increase gross budget costs by about \$1.6 billion.

These changes would institute a national uniform minimum AFDC benefit; extend a revised AFDC-UP program to two-parent families in all States; conform income and asset definitions between AFDC and food stamps; replace individualized AFDC calculations for work expenses with standard deductions; base benefits on actual income received in a prior month rather than income anticipated for the month in which payment is made; and require periodic reporting of income. Timing of the phase-in of these changes is subject to further discussion.

Employment and Work Incentives. A combination of employment and training opportunities and work incentives which would:

- ° Attempt to provide an employment and training opportunity for the principal earner in AFDC families for whom a private sector job cannot be found.
- ° Maximize reliance on the enacted base resources: CETA (\$4.7 billion in 1980) and tax credits (\$.9 billion in 1980).
- ° Further expand the Earned Income Tax Credit (EITC) from \$1.8 billion in 1980 to \$2.9 billion in 1982, increasing incomes of working poor families and thereby strengthening work incentives and reducing welfare costs.
- ° Provide up to a \$5.3 billion increase for private and public sector employment and training opportunities.

Your advisors are agreed that ultimate determination of the mix and level of public sector jobs, training, tax credits and EITC will depend on evaluation of the effectiveness of existing programs, the state of the economy, and the budgetary situation.

Fiscal Relief. About \$.9 billion in fiscal relief, resulting from the above components.

The components have a budget impact of \$5.5 billion after allowing for offsets. This is the level which would be included in the budget allowance for contingencies for 1982. In addition, your advisors recommend that you be prepared to consider up to an additional \$1.5 billion. This recommendation is made in order to have the negotiating flexibility necessary for consideration of the cash out of food stamps for the SSI population, further expansion of the EITC, likely pressures for additional fiscal relief or other provisions.

The \$5.5 billion resource level in 1982 provides a basis for negotiations. It does not bind the Administration to specific programmatic decisions or distributions within the total. (For example, by phasing you could include the food stamp cash out in a \$5.5 billion 1982 level.) DPS is preparing a more formal memorandum seeking your concurrence which will be given to you Friday before you leave for Plains. If necessary, your senior staff and Cabinet officers will meet with you to discuss welfare reform.

## The National Health Plan

At the HEW budget appeals session you indicated that the Administration should begin redeeming its pledge for a comprehensive health plan immediately. Important preliminary steps toward fulfilling Administration goals would build on the existing Federal health programs and incorporate the initiatives approved for the 1980 budget. Most notable of these initiatives are:

- ° Hospital cost containment (Federal savings: \$1.8 billion; national savings: \$4.8 billion).
- ° Medicare and Medicaid administrative reforms, including Medicaid quality controls (savings: \$1.4 billion).
- ° Expansion of Medicaid including coverage for 1.7 million children in low-income families and 64,000 low-income expectant mothers (\$297 million).
- ° Increased access to services for the poor and underserved through selective expansion of service delivery programs, new grants for community health centers and expansion of the National Health Service Corps (+\$142 million).
- ° New and refocused Federal programs designed to emphasize the prevention of illness, injury and death (+\$47 million in HEW alone).

Options for next steps in the national health plan will be presented to you in the near future and will include Medicaid reforms and a program to help ensure that no American is bankrupted by catastrophic medical expenses.

The need to carefully phase in the health plan and coordinate it with our welfare reform initiative will delay major increases in outlays until 1983 and beyond. Given the absence of an approved outline of the national health plan, OMB recommends not earmarking outyear funds for NHP in the budget.

8:00 AM

THE WHITE HOUSE  
WASHINGTON

Q

December 20, 1978

MEMORANDUM TO THE PRESIDENT

FROM: A. E. Kahn

Fred

SUBJECT: Breakfast Meeting on Inflation, December 21,  
8:00 a.m., The Cabinet Room

I attach a background paper summarizing the main developments in the anti-inflation program during the last two weeks since our last meeting and brief discussions of some upcoming issues. I include at the end of this agenda an outline of the topics, to help you select any that you may want to discuss.

The following are the topics that I would like to raise with you. Most are for purposes of discussion only, to give you a feel for the issues, and to give us the benefit of your thoughts; it is not clear as I write this whether item 1, real wage insurance, will be ready for decision.

1. Real wage insurance
2. The status of some other legislative proposals
  - a. Minimum wage
  - b. David-Bacon.
3. The meeting Esther Peterson and I had with the COIN group
  - a. The main concerns of theirs that we would find troublesome -- energy pricing, milk marketing orders, solar energy, quantitative credit controls, the budget cuts
  - b. How we plan to proceed.

- c. Some specific responses I have already given  
(Nader on government salaries and automobile  
repair fraud).
- 4. Conformance of Federal workers' pay with the  
guidelines; the declaration we'd like to attribute  
to you.
- 5. The question of gasoline decontrol.

Outline of attached memo, main developments in the anti-inflation program, December 8-21, and background on some upcoming issues

I. Informational items

A. Wage/Price standard

1. Release of the final standards
2. The West Coast court challenge to the program
3. The oil negotiations
4. The Teamster negotiations
5. The state and local legislators' pay increases
6. Compliance of Federal workers

B. The inflation outlook (reserved for the budget overview)

II. Issue for future decision

A. Legislative package

1. Excise tax reductions
2. Reductions in state excises
3. Minimum wage and Davis-Bacon legislation
4. Administrative changes in Davis-Bacon
5. Real wage insurance

B. Energy prices

1. Crude oil decontrol
2. Gasoline decontrol

